



# UNTYING THE KNOT?

## Ireland, the UK and the EU

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Ireland must stay close to both the UK and Europe. This is the crux of the challenge facing Ireland as the UK attempts to renegotiate its position in the European Union. The relationship between Ireland and the UK has never been better, but David Cameron's January 2013 speech on Europe heralds a long period of uncertainty for Ireland and the EU. The uncertainty surrounding the UK's place in Europe is further intensified by the Scottish vote on independence in 2014, which could see an independent Scotland applying to join the EU, and the rest of the UK on its way to the exit. Given that it stands to be one of the biggest losers from a UK withdrawal, it is crucial that Ireland adopts a far-sighted and well-balanced strategy for dealing with the possible implications. This paper outlines Ireland's options vis-à-vis the EU and the UK, and assesses how best Ireland can look after its long-term strategic interests.

## CHANGE IN UK-EU RELATIONS

The UK's relations with its European partners, which have always been "awkward", have deteriorated since the beginning of the Eurozone crisis. One of the reasons for this is the changing nature of the EU itself. Eurozone members are moving towards banking, fiscal, and economic union in order to overcome the crisis and this may eventually require deeper political integration to ensure democratic legitimacy and accountability. Conversely, the Conservatives and Liberal Democrats agreed in their programme for government that there should be no further transfer of sovereignty or powers to Brussels over the course of this parliament. The European Union Bill, which came into effect in July 2011, provides for a referendum to be held on any proposed EU treaty or treaty change that would transfer powers from the UK to the EU. This piece of legislation makes it politically difficult for the British Government to participate in any further European integration measures. Cameron's veto at the December 2011 European Council summit marked a shift in the UK's European policy from engagement to detachment.

The UK's detachment comes at a time when its European partners are trying to manage the Eurozone crisis and the institutional changes that this has entailed. The seventeen 'ins', including Ireland, appear to be willing to do whatever it takes to save the euro, including a level of integration that seemed unimaginable a few years ago. This has created the problem of accommodating the ten non-Eurozone Member States, which form a disparate group. The 'pre-ins', such as Poland, are legally committed to joining the euro. Their fate is fundamentally tied to the Eurozone and, for this reason, most have signed up to the Euro Plus Pact and the Treaty

on Stability, Coordination and Governance (TSCG). Among the 'outs', Britain and Denmark have legal opt-outs from the euro, although Denmark has signed up to the TSCG and has not ruled out participating in banking union. Sweden, which has unofficially opted out of the single currency, has indicated that it will not join banking union in the near future. While the Czech Republic did not sign up to the TSCG or banking union, it is committed by treaty to eventually join the single currency. Of the four 'out' countries, the UK is furthest from the centre in every serious policy debate, and this is unlikely to change in the coming years.

Another factor underlying the British dilemma is domestic pressure to leave the EU. Euroscepticism among the British public and within the Conservative Party has reached unprecedented levels. The media and Eurosceptic politicians, who strongly opposed the proposal of the UK joining the single currency, feel vindicated by the Eurozone crisis and have been increasingly assertive in calling for changes in the UK's terms of membership of the EU, including outright withdrawal. David Cameron has come under pressure from his backbenchers to take advantage of the changes in Europe to seek a looser relationship between the UK and the EU. It is not difficult to imagine the UK obtaining a derogation from the next EU treaty, thereby allowing the rest of the Union to move ahead while avoiding the need for a referendum in the UK since no new powers would be transferred to Brussels. However, simply standing still and allowing the rest of the Union to integrate further is not enough for British Eurosceptics, who demand the return of certain competences from Brussels to London. British Eurosceptics argue that the treaty change necessary to overcome the Eurozone crisis would provide an opportunity to recast the UK's relationship with Europe.

## CAMERON'S SPEECH

To placate his increasingly vociferous backbenchers, the Prime Minister outlined his strategy on 23 January 2013 in a speech that marked a new departure in the UK's relations with Europe and opened the path to a referendum on EU membership, regardless of developments at European level. Cameron called for an end to the aspiration towards an "ever closer union" and set out instead his vision of a 'more flexible, more adaptable, more open' EU. In a move that delighted Tory Eurosceptics, he promised that a re-elected Conservative Party would hold an in/out referendum on EU membership in 2017. This referendum would take place after London has negotiated a new form of membership that would free Britain from 'spurious regulation' but keep it at the heart of the European single market.

The Conservative Party will therefore go into the 2015 general election with a commitment to renegotiate the terms of Britain's EU membership and to hold a referendum on the outcome within the first half of the next parliament. The British people would vote on whether to stay in the EU with the new deal or to leave. This strategy depends on a number of uncertain – perhaps even unlikely – variables. The Conservative Party would have to win the 2015 general election with a majority; Cameron would have to convince his European partners to open a renegotiation of the European treaties; he would then have to successfully repatriate key competences from Brussels; and, finally, he would need to convince the British public to accept the new settlement.

Even if the Conservatives do not win the next general election, however, a referendum on membership may by then be unavoidable for any British government. Ed Miliband has indicated that the Labour Party will not be pressured into making a similar pre-election promise. Nevertheless, the party's policy is to keep its options open on a referendum and thereby not alienate voters by appearing as an advocate of the status quo on Europe. Some members of the party leadership, including the Shadow Chancellor, Ed Balls, and the head of the party's policy review, Jon Cruddas, are sympathetic to a referendum. If Europe becomes a key election issue, it is therefore probable that Labour too will advocate a referendum.

## AN UNCERTAIN PATH

The Liberal Democrats, the Labour Party and business representatives have accused the Prime Minister of creating uncertainty about the UK's position in Europe that will have a detrimental impact on inward investment and growth over the next five years. Another source of uncertainty comes from Scotland's independence vote. This will be held in October 2014, after the European Parliament elections in June of that year and before the UK general election the following May. The issues of Scottish independence and the UK's role in the EU have become linked politically because Scotland's more Europhile attitudes sit uncomfortably with English Euroscepticism. The leader of the Scottish National Party, Alex Salmond, blames the Conservatives for jeopardising Scotland's EU membership and Labour for not opposing this clearly enough. He hopes to swing those who fear Scotland's economy would suffer from a UK withdrawal from the EU to the case for independence.

Polls show that the expectation of economic benefits flowing from independence is by far the most important factor determining voter intentions in the Scottish

referendum. Those expecting the economy would be a lot stronger if independent from London are far more likely to vote Yes than those who think it would be a lot weaker if Scotland left the UK. Salmond believes the new factors of political uncertainty would outweigh the legal uncertainty about whether Scotland would be entitled to automatic EU membership and would have to join the euro. Were Scotland to join the EU as an independent Member State, it would be under treaty obligation to join the euro once it meets the criteria.

If UKIP does well in the 2014 European Parliament elections, Salmond's case that Scottish interests would be subordinated to English nationalism would be bolstered. Although support for independence varies between one-quarter and one-third of Scottish voters when contrasted with maximal devolution, a majority believes the Scottish Parliament should make all the decisions, which is another way of defining independence. This ambiguity means the referendum campaign is much more open than it looks from a mechanical reading of the polling evidence. It will be strongly influenced by the changing political context and events between now and October 2014. And even if the Scots vote No to independence the question will not go away, since many view greater devolution as a stepping stone to independence, recalling attitudes to Home Rule in Ireland one hundred years ago. The question would re-emerge during any 2017 referendum, when a Scottish preference to stay in the EU might be over-ruled by an English vote to withdraw.

It is difficult at this early stage to predict the outcome of Cameron's endeavour to renegotiate the UK's membership of the EU. However, there are three scenarios for which Ireland should be prepared. They are outlined below.

### 1: Accommodation

EU Member States could agree to give the UK minor concessions that do not alter the fundamentals of the Union. This outcome depends in large part on the demands of the British side. If the Labour Party wins the next general election after also promising to hold an in/out referendum, it is highly unlikely that the British Government would then seek to repatriate EU regulations like social and employment law. Even if the Conservatives are in government, they may have realised by 2015 that repatriating parts of the single market – while remaining at its heart – would be extremely difficult. Pragmatism could see even a Conservative government seeking minor gains that would be symbolic victories rather than a substantial repatriation of competences. Such gains could, for example, take the form of less restrictive and complex regulations in certain policy areas; safeguards to ensure that the influence of 'outs' within the single market will not be compromised

by a more integrated Eurozone; or cuts to ‘expensive peripheral European institutions’ (David Cameron’s words) and bureaucracy in Brussels.

Accommodation would not require treaty change, although it could see Britain’s concessions being applied to all EU Member States. It would enable the UK to remain fully in the single market and to continue pushing for its completion, as Cameron called for in his speech. However, minor concessions are unlikely to convince Tory Eurosceptics, the British media or UKIP, who would have a powerful argument in any referendum campaign that the Government was not fulfilling its promise of renegotiation. The challenge would be to convince the British public that the concessions represent a success for the UK and, on that basis, to vote Yes in the in/out referendum. At present, the prospects of obtaining that support seem unfavourable. However, a referendum campaign could see leaders of the three main parties – the Conservatives, Labour and the Liberal Democrats – joining business leaders, representatives of the City and trade unions in supporting a Yes vote. The vote after such a campaign would probably be for continued British membership of the EU.

## 2: Repatriation

The initial response of European politicians and officials to Cameron’s speech was far from supportive. Several European leaders and officials, including members of the Irish Government, have indicated their opposition to the “cherry-picking” of key policies and have warned that Britain’s endeavour could lead to the unravelling of the single market. Nevertheless, a renegotiated deal for the UK is not impossible. Angela Merkel’s reaction to the Prime Minister’s speech – an offer to ‘talk intensively with Britain about its individual ideas’ – indicates her willingness at least to keep the UK on board. And while Tory Eurosceptics undoubtedly overplay the strength of Britain’s negotiating power vis-à-vis its European partners, it is true that a UK withdrawal would not be in the interest of any Member State. For this reason, an acceptable deal for Britain might just be achievable.

The UK’s demands, if pursued in a reasonable and constructive way, may find support among many other Member States and this call for reform could trigger a serious debate across Europe on the future of the Union. This would be a positive development if the debate centred on the changes that could benefit Europe’s citizens rather than a narrow focus on repatriation. A healthy debate that engaged ordinary citizens, business and trade unions would be beneficial for the political and popular legitimacy of the EU. It could also make more citizens, including in Britain, aware of what the EU is and how it operates. As Cameron

pointed out, the EU is often seen as ‘something that is done to people rather than acting on their behalf’.

The key question here is whether other Member States would be willing to open the European treaties to suit the UK. Germany has long argued for treaty change to help overcome the Eurozone crisis. However, in the face of strong resistance from other Member States, including France, Merkel has backed away from calling for big treaty change. In the case of a renegotiation of the UK’s terms of membership, all twenty-six (soon to be twenty-seven) of the UK’s partners would have to agree to the final deal and every state would have its own priorities and red lines. If the Conservative Party is in government after the 2015 election, an opt-out from social, environmental and employment legislation would seem to be the minimum that the UK would need to achieve in order to avoid splitting the party. However, it is very difficult to imagine other Member States agreeing to this without demanding concessions in return. Finally, any new deal would have to be approved by a referendum in some Member States, including Ireland, before the UK’s in/out vote could proceed.

A renegotiation with the aim of repatriating competences is therefore possible, but would not be easy. In light of the complexity of agreeing a new deal for Britain, the deadline of 2017 seems very ambitious. London is carrying out a review of the balance of competences between the UK and the EU, which is due for completion at the end of 2014. If, in the meantime, the European Commission were to begin its own review of the balance of competences between the Union and the Member States, this could facilitate the proposed negotiations between the UK and its European partners.

## 3: Withdrawal

In the event that other EU states refuse to allow Britain to opt out of rules that they regard as intrinsic to the single market, the UK would presumably make good on its threat of full withdrawal, either during the unsatisfactory renegotiation process or in a referendum that rejects the new deal because it does not go far enough. It is undoubtedly the case that some Eurosceptics in the UK see repatriation as a step to exit. Some Tory members of Government have openly spoken about the possibility of Britain leaving the EU. Nevertheless, a deliberate withdrawal remains unlikely because of the negative consequences it would have for the UK’s trade and inward investment, its geopolitical influence and its relationship with the United States. An accidental withdrawal poses a much greater risk to both the UK and its European partners.

It is clear that the coalition government in London is trying to push the issue of the UK's membership of the EU out until after the next election in 2015, but that is still a long time away. In the meantime, a political accident, miscalculation or diplomatic misunderstanding could prove fatal to the already fragile relations between the UK and the EU. Key issues at the European level like the negotiation of the Eurozone's move towards full banking union could result in another "veto moment" in the UK's relations with Europe. An important domestic issue in this respect is the potential rise of UKIP in the lead-up to the 2014 European Parliament election. UKIP is already raising fears of another massive influx of eastern Europeans into the UK when Britain's temporary restrictions on Romanian and Bulgarian immigrants expire at the end of 2013. The issue of immigration is a key driver of anti-EU sentiment in Britain so this could further harden attitudes against Europe.

There are therefore a number of known, and probably many more unknown, issues and situations between now and 2017 that could further damage UK-EU relations, reinforce Euroscepticism in Britain and make exit a much more likely outcome. The situation is volatile and could take on its own unpredictable dynamic. EU governments and officials are currently trying to keep the UK on board and to take account of London's predicament as much as possible to avoid any such "accidents". However, if it is a choice between satisfying the UK and saving the euro, other Member States will opt for the latter course.

Outside the EU, the UK would undoubtedly seek to negotiate a new agreement with its former partners. It would more than likely obtain a good deal because it is such a large market for other EU states. However, the result would probably not be unhindered access to the single market and the process could take many years (it took ten years to negotiate bilateral agreements with Switzerland, which is much smaller than the UK). If a favourable agreement is not swiftly negotiated, there is a risk that the UK would become increasingly isolated from the rest of Europe, which would have negative implications for Ireland. On the other hand, if the EU were to conclude a comprehensive free trade agreement with the United States, as it is now doing with Canada, it is very unlikely that the UK would be excluded from a transatlantic free trade area. The impact of withdrawal on EU-UK trade could therefore be mitigated by 2017.

## Ireland's Options

Political and economic relations between the UK and Ireland have never been better. With a trade flow of €1 billion per week, more than 1,000 flights per week and 45,000 Irish people on the boards of British companies, the business and trade relationship between the UK and Ireland is remarkably deep. The Joint Statement by the Taoiseach and Prime Minister on 12 March 2012 provides the basis for an even stronger economic and political partnership between Ireland and Britain and shows that there is a real willingness on both sides to intensify relations. The ties that bind the two states are further strengthened by the importance of maintaining peace and stability in Northern Ireland. The political situation in the North remains fragile and any tectonic shift in relations between the UK and Ireland would have a negative impact on the North's internal stability.

The changing nature of relations between the UK and the EU therefore poses a particular challenge for Irish foreign policy (as explained in [Towards an Irish Foreign Policy for Britain](#) in August 2012). A strong bilateral partnership would be quite difficult to achieve if the two countries are moving in opposite directions. In managing its relations with the UK on the one hand and with the EU on the other, Ireland has three options: to adopt a reactive approach to developments in UK-EU relations; to be a proactive EU Member State; and/or to provide an interpretive role between the UK and the EU.

### Reactive

Relations with the UK are a priority for Ireland. In recognition of this, Ireland could decide to avoid taking any steps that would damage this relationship. In the short term, this might entail accepting the status quo and adopting a wait-and-see approach. In the long term, Ireland could step back from further European integration and possibly follow the UK in its disengagement from the EU. This would guarantee unhindered trade across these islands and would protect important areas of cooperation like the Common Travel Area and cross-border counter-terrorism efforts. Adopting this approach would be the most straightforward method of addressing the economic, social and political imperatives associated with maintaining an open border with the North.

However, such a policy would not be to Ireland's long-term benefit. Positive engagement with the EU is a cornerstone of Irish policy because it is seen as fundamental to the country's future economic development. As a small, open economy that is heavily dependent on foreign investment, Ireland cannot be seen to be wavering in its commitment

to the single market and the single currency. Furthermore, Ireland cannot afford to lose the goodwill of key continental partners. By following the UK, Ireland would be guaranteeing close relations with Britain, but closing the door on its European partners. A more balanced and strategic approach is necessary.

### Proactive

A second option for Ireland, which the Government appears to have adopted, is to indicate its commitment to membership of the Eurozone by wholeheartedly taking on the responsibilities of a small and active core Member State. Ireland has declared its intent to remain in the European core. Maintaining this policy and participating in further fiscal, economic and political integration would constitute a proactive approach to the politics surrounding the Eurozone crisis. The risk of adopting a proactive role would be its potential to create friction between Irish and British interests, and also to generate instability in Northern Ireland.

In a proactive role, the Government would have to make clear that, despite the State's commitment to deeper European integration, Ireland's relationship with the UK remains a priority. If the UK moves towards a more semi-detached position within the EU – or withdraws altogether – Ireland may need to seek special arrangements at the European level to maintain the bilateral relationship. Given the importance of British-Irish relations to this State and to the stability of Northern Ireland, such arrangements could be achievable. In this respect, future concessions from European partners are more likely if Ireland maintains its credentials as an active and committed EU member.

The proactive approach at least leaves open the possibility of Ireland avoiding a binary choice between the EU and the UK because Ireland may be able to combine core membership of the EU and a strong bilateral partnership with Britain. The ties that bind the UK and Ireland, and their desire to maintain a strong bilateral partnership, would override any complications arising from Britain's possible disengagement from the EU.

### Interpretive

Ireland has a privileged knowledge of Britain arising from long historical association, very close political engagement and high economic, social and cultural interdependence. This may be of great value to other EU Member States, and indeed third countries like the United States, which are less familiar with the terms of the British debate on Europe. Ireland could act as an interpreter and mediator of British views for other partners. It could address Irish strategic interests in this role by highlighting the importance of

British participation in the Union and seeking to ease the path for future EU-UK relations. In Britain, Ireland could emphasise the high costs of disengaging from Europe, particularly for Northern Ireland, which has not featured in the British debate so far. This role could be particularly fruitful during the Irish Presidency of the Council of the European Union.

As a pro-European country that is rigorously fulfilling its bailout conditions, Ireland has good grounds to stand between the UK and the EU and confront each of them with the legitimate criticisms by, and of, the other. Ireland could carefully examine what the British want (as this becomes clearer) to determine if their proposals would be good for the rest of the Union, including Ireland. Where the UK's requests are reasonable and beneficial, Ireland could make the case for a fair debate. As a proactive Member State, Ireland might be well placed to articulate evidence-based arguments that show the adverse impact of certain EU regulations. In an interpretive role, Ireland could also help to avoid any damaging misunderstandings or diplomatic accidents in what will surely be a challenging period in UK-EU relations.

The role of interpreter would complement a proactive policy towards the EU. Ireland's usefulness within core Europe would be enhanced if it served as a bridge between Britain and the rest of the EU. The potential difficulty with this role is that Ireland's European partners could perceive it as an agent of the UK in Europe rather than a broker between the two. There will be disagreements between EU Member States – for example, France and Germany – over the terms that should be offered to the UK and this could disadvantage Ireland by alienating key partners in Europe. Avoiding this outcome would require great diplomatic ingenuity and balance.

## IMPLICATIONS FOR IRELAND

The role that Ireland chooses depends in large part on the implications for Ireland of each of the three scenarios:

### Accommodation

Accommodation would be the most benign outcome for Ireland as it would see minimal changes in the UK's relationship with the EU. In fact, Ireland could benefit if the concessions given to the UK were applied to all Member States, since these concessions would probably contribute to a more competitive Union. David Cameron's demands for the completion of the single market and the conclusion of trade deals with key global partners show

that the UK and Ireland still have a lot in common in their approach to the EU, regardless of the directions in which they might each be heading. If accommodation prioritised some of the actions advocated by the UK, kept Britain at the heart of the single market and settled the position of the 'outs' within the Union, then it would be of benefit to all Member States.

### Repatriation

The primary risk of repatriation, for all Member States, is the unravelling of the single market and the Union as a whole. If Britain demands opt-outs from aspects of the single market, then it is difficult to imagine other Member States not doing the same. The Irish Government has indicated that it will not support the UK's efforts to renegotiate its terms of EU membership, pointing out that the EU would unravel if all of its Member States sought different categories of membership. However, Cameron has committed himself to some form of renegotiation and has probably forced Labour to do the same.

If the UK were to succeed in excepting itself from the "rules of the game" in Europe while retaining access to the single market, this would be a cause for concern in Ireland. A "semi-detached" Britain would pose less of a challenge to Irish foreign policy than a Britain outside of the EU altogether, but it would open the prospect of a rule-constrained Ireland being out-competed by a newly aggressive neighbour, which is already Ireland's closest competitor in many areas, including in the attraction of inward investment.

Ireland's uniquely high dependence on inward investment for job creation and on exports for earnings has left it successful but exposed. Its attractions as an English-speaking, euro-trading, Europe-accessing and generally amenable location for mobile global investment are well acknowledged. Add to these features that it has the lowest corporation tax rate among advanced EU states and it is little wonder that Ireland hosts eight of the world's top ten technology businesses and fifteen of the top twenty-five medical device companies. However, the winds of change are already blowing, and not just around the financial services sector.

A new 10% tax rate (compared to Britain's standard 23%) on profits from UK-owned intellectual property through research-based manufacturing has already diverted investment from Ireland to the UK. This Patent Box tax deal is just one such recent innovative tax measure introduced by the UK that points to how an increasingly self-directing

UK could fundamentally change the competitiveness

equation between the two neighbours.

And tax is only one – if an important – factor in the relative competitiveness of Ireland and the UK. Notwithstanding fresh public debate in Britain on the merits of low effective tax rates paid by certain multinationals, there is no doubt that both islands will continue to compete aggressively for FDI. Only some of these investors will insist on a euro-currency domicile, therefore Ireland must increasingly concern itself with not only ensuring a full free-trade partnership with the UK regardless of possible British disengagement from Europe, but also with ensuring that it absolutely optimises the core competitiveness of the Irish economy. The relative costs of regulation will be a key competitive battleground, bound up in the question of exactly what form of semi-detached relationship the UK carves out with Europe.

As a broker between the UK and the EU, Ireland would be faced with the question of how it could sponsor a new relationship between Britain and Europe yet still ensure that it remains fundamentally more competitive and attractive to neutral global FDI. By adopting a proactive role, Ireland could retain the benefits of core Europeanism, but would have to begin a sustained programme of significantly increasing the level of business done by indigenous Irish businesses within Europe and simultaneously assist its neighbour in achieving an updated relationship with Europe that ensures unhindered free trade between Britain and Ireland.

### Withdrawal

An outright withdrawal of the UK from the EU would likely have profound implications for Ireland. It could weaken the fragile compromise in Northern Ireland, disrupt the free movement of goods and people between Ireland and the UK, undermine bilateral cooperation in key policy areas and thereby challenge Ireland's resolve to remain a core EU Member State. Given the considerable influence of British media in Ireland, a UK exit could also affect popular support in Ireland for European integration. It is therefore crucial that Ireland is prepared for the possible turbulence of a UK exit.

If Britain were to leave the single market, a new model of cooperation between the UK and the EU would necessarily be created. Given the importance of the UK economy (the third largest in Europe), it would very likely obtain a favourable deal with its European partners. However, full access to the single market would be difficult to achieve since, unlike Norway or Switzerland, the UK would not accept having no say over legislation emanating from Brussels. The risk of barriers to trade and investment (however low) between the UK and Ireland could have

implications for the free movement of goods between the two countries. Under current EU rules, Ireland would not be able to negotiate a bilateral trade agreement with the UK. However, a viable inter-island free trade relationship with Ireland's largest trading partner would be essential in the case of a British withdrawal. This is where Ireland, as a proactive EU Member State, could perhaps call on its EU partners to allow special arrangements to maintain bilateral relations with the UK.

The importance of such a concession not only applies to trade. Since immigration from new EU Member States is one of the main reasons for anti-EU attitudes in Britain, it is possible that the movement of people between the UK and the EU would also be restricted. In a worst-case scenario, this could see passport control being introduced on the Irish border. Nationalist communities would again feel cut off from the Republic and efforts to develop an all-island approach in certain policy areas would be undermined. Other questions would be likely to arise in key areas such as justice and home affairs cooperation, which is already set to be undermined by the UK's possible block opt-out from pre-Lisbon police and justice measures in 2014. Such a move by the UK would undoubtedly have an impact on the efficiency and effectiveness of valuable police cooperation and risk undermining the fight against cross-border terrorism.

Ireland would therefore have to make clear that, without wishing to jeopardise its membership of core Europe, it must be in a position to cooperate with the UK in certain areas. If such special arrangements can be arranged, Ireland could be a potential net beneficiary in attracting FDI against an isolated Britain and become the only English-speaking gateway to EU trade for global FDI. Ireland would, however, need to significantly reduce its over-dependence on UK trade, even if a free trade relationship between the two countries could be guaranteed. The reason for this is that, outside of the EU, the UK would be free to set its own external tariffs. For example, it would be very problematic for Ireland if the UK were to slash tariffs on food imports from developing economies since the UK is the largest market for Ireland's agri-food and drink sector.

Proactively committing to further European integration could have a further downside in the case of British withdrawal. Given the two states' shared economic views, including on the single market, financial services and corporate taxation, a UK withdrawal would weaken Ireland and expose it to greater pressure from its less liberal continental partners. Even if Ireland were to build up new alliances with like-minded, liberal EU Member States, their combined influence within the Eurozone and the EU would be seriously weakened without the weight of

the UK. A less liberal Eurozone would most certainly not be in Irish interests, and must be factored in as one of the potential costs of Ireland opting for a proactive role. For example, if the UK were to leave the EU, greater pressure for a common corporate tax rate would be inevitable. By remaining a proactive Member State, Irish policy-makers may have to consider what elements of Irish economic policy can be defended and what may have to go in a less liberal Eurozone.

## Conclusion

It is in Ireland's strategic interest to stay as close as possible to both the UK and Europe. The Government has affirmed its commitment to Ireland's membership of core Europe at a time when the UK is seeking to renegotiate its membership of the EU. Adopting a proactive approach to European politics and integration provides the greatest opportunity for Ireland to maintain close relations with the two sides. As a core EU member that has shown an unwavering commitment to Europe, Ireland would be well positioned to seek special bilateral arrangements in order to manage relations with the UK if it were to withdraw. Ireland's European partners will surely understand that there are fundamental areas in which the UK and Ireland must cooperate and it is very hard to imagine that Ireland would not be allowed to maintain parallel agreements with Britain while remaining a core EU member. Acting as a "broker" between the UK and the EU as the two sides steer a course through choppy waters could be of benefit to both sides. Moreover, by mediating between the two sides and working to ensure that Britain's requests get a fair hearing on the continent, Ireland could look after its own interest of keeping the UK within a fully functioning single market.

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